

MAR 08 2021

Department of Water Resources
Eastern Region

TREASURER STATEMENT OF FINANCIAL AFFAIRS

TO: Idaho Department of Water Resources

FROM: Treasurer of Water District No. 34 Water District Name: Water District 34

It shall be the duty of the water district treasurer to prepare a statement of the financial affairs of the district at the end of each fiscal year and to file the statement with the director of the department of water resources. (§ 42-619, Idaho Code)

An audit of the financial affairs of the district shall be made as required in § 67-450B, Idaho Code. A certified copy of the audit shall be filed with the director of the department of water resources following the audit. (§ 42-619, Idaho Code)

I, Crystal Roche, appointed treasurer of Water District No. 34, hereby submit the attached statement(s) for the district. These statement(s) document and account for all water district assets and finances including accounts receivable, accounts received, and monies disbursed on behalf of the district.

Please check the appropriate box

- ☒ Attached is a Statement of Financial Affairs of the district.
- ☒ Attached is a Statement of Financial Affairs and certified copy of the audit as required by § 67-450B, Idaho Code

I hereby certify that the attachment(s) noted above are true and correct copies of the required statement(s) for Fiscal Year 2020-2021

Crystal Roche
Treasurer signature

Date

Po Box 53 Mauckay, ID 83251
Address

Telephone

208-588-3137 Waterdist34@
E-Mail atcnet.net

WATER DISTRICT NO. 34

September 10, 2020

Searle Hart and Associates, PLLC
3395 S. Holmes Ave.
Idaho Falls, Idaho 83404

This representation letter is provided in connection with your audit of the financial statements of the Water District No. 34 as of February 29, 2020 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the Water District No. 34 in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 10, 2020:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated September 27, 2019, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There are no known uncorrected misstatements, whether material or immaterial to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* Omnibus as

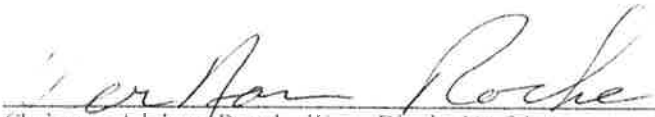
amended, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.

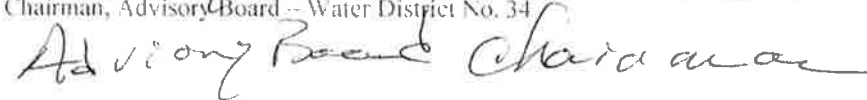
- All components of net position are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position is properly recognized under the policy.
- All inter-fund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Water District No. 34 has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Water District No. 34 is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:

- Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations,
- Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62,
- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
- Water District No. 34 has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.



Chairman, Advisory Board -- Water District No. 34


**WATER DISTRICT NO. 34
MACKAY, IDAHO**

**MANAGEMENT REPORT
For the Year Ended February 29, 2020**



The Advisory Board
Water District No. 34 – State of Idaho
Mackay, Idaho

Re: *Management Letter*

We have issued our audit report for the year ended February 29, 2020 dated September 10, 2020. That report is provided under separate cover.

During the audit of the year herein reported, we tested and observed the District's fiscal system, compliance with pertinent laws, rules and regulations, and the effectiveness of internal controls. Based on those tests and observations, we believe the following comments are important.

We would like to commend you for your hard work and diligence in implementing internal controls. The District is in good financial condition and the accounting records are kept in good order. We have enjoyed working with the District and its personnel during the audit.

We have included graphs showing operating trends and performance for your analysis and hope you find this useful. If you have questions following the review of the audit or the graphs, please let us know and we would be glad to review these in more detail.

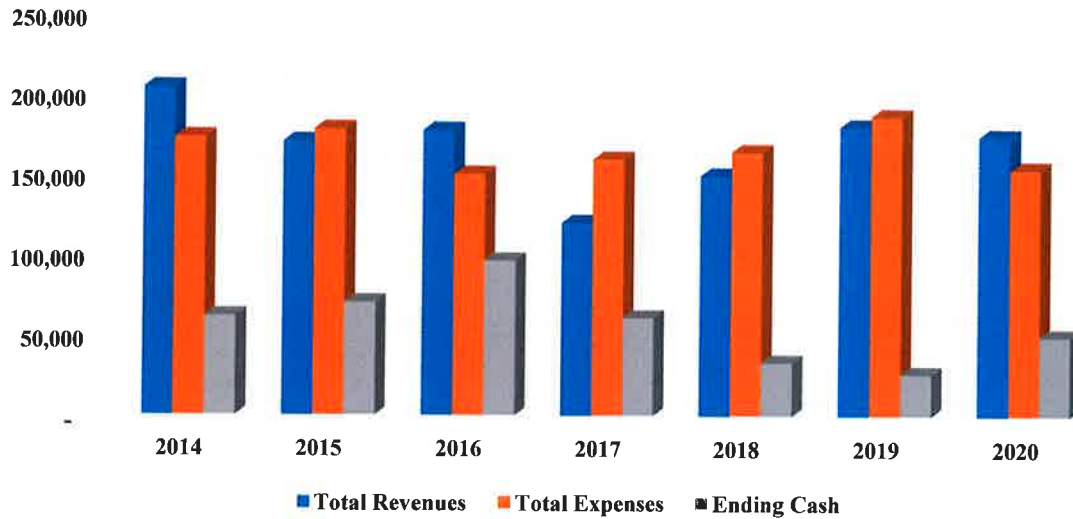
It has been our pleasure to serve the District during this engagement.

Very truly yours,

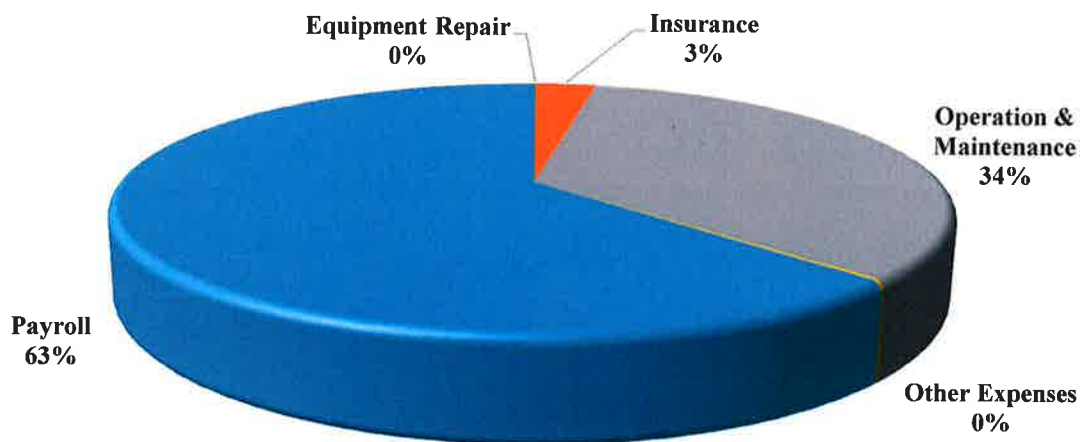
Searle Hart & Associates PLLC
SEARLE HART & ASSOCIATES, PLLC
Certified Public Accountants

Water District No. 34

Water District No. 34

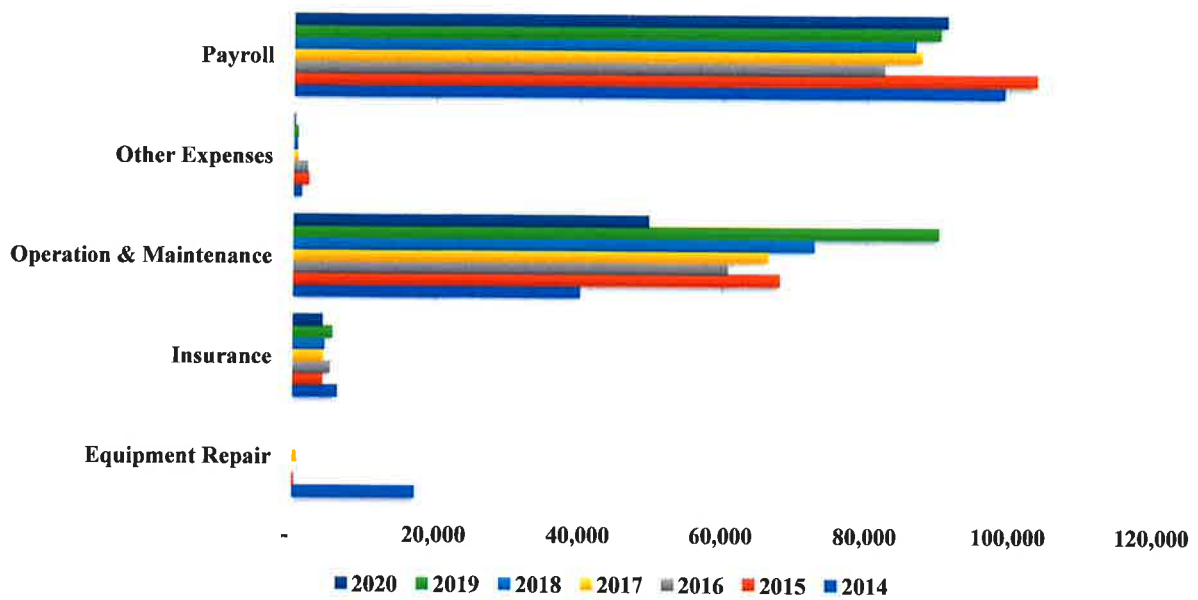


2020 EXPENSES

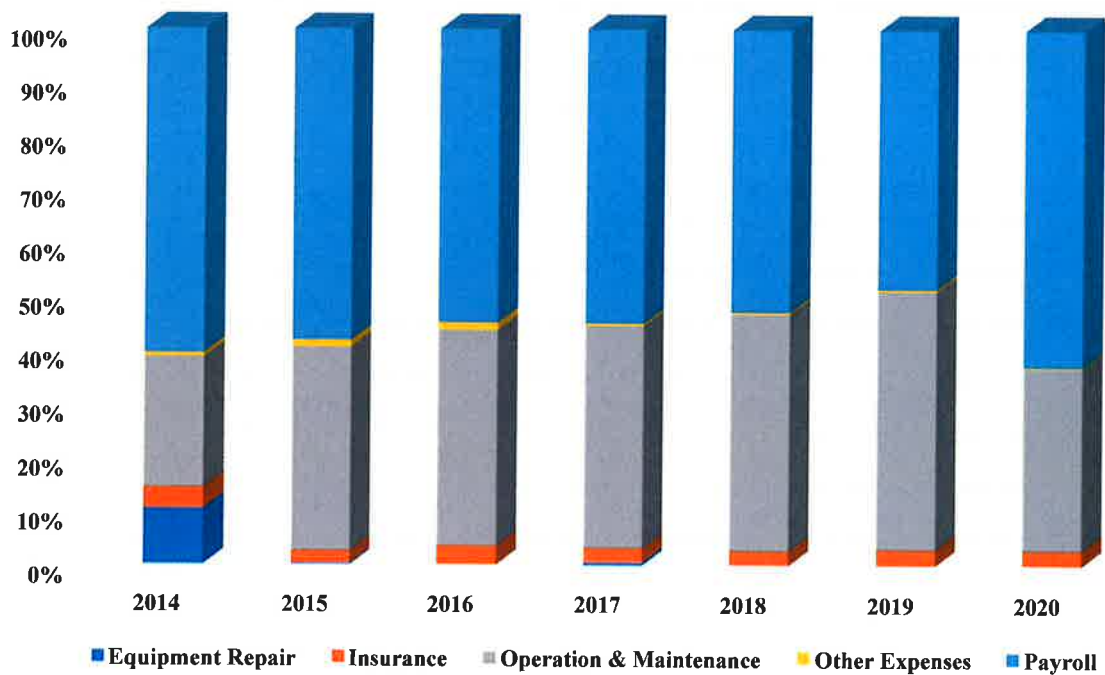


Water District No. 34

Expense Trends



2020 Trends by Percentages





September 10, 2020

To the Advisory Board
Water District No. 34
Mackay, Idaho

We have audited the financial statements of the business-type activities of Water District No. 34, Mackay, Idaho, as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 10, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 27, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to form and express opinions about whether the financial statements prepared by the auditor and approved with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Water District No. 34 solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated September 10, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

As part of our firm's quality control, each employee reviews a list of all clients annually for relationships that may impair their independence. As auditors, any item relating to the financial statements that may be construed as a decision is first passed through management. All proposed journal entries are reviewed and approved by management as well as any depreciation schedules. Remaining independent is frequently mentioned in our discussions during the audit.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies used by the District are described in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended February 29, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is net pension liability.

Management's estimate of the net pension liability is based on the total pension plan liability and the District's proportionate share provided by the Public Employee Retirement System of Idaho (Persi) Base Plan. We determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Identified or Suspected Fraud

We have not identified information that indicates that fraud may have occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Water District No. 34's financial statements or auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain representations from management that are included in the management representation letter dated September 10, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Water District No. 34, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Water District No. 34's auditors.

Searle Hart & Associates PLLC

Rexburg, Idaho
September 10, 2020

**WATER DISTRICT NO. 34
MACKAY, IDAHO
ANNUAL FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
For the Year Ended February 29, 2020**

WATER DISTRICT NO. 34
ANNUAL FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

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INDEPENDENT AUDITOR'S REPORT

**Advisory Board
Water District No. 34
Mackay, Idaho**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Water District No. 34, Mackay, Idaho, as of and for the year ended February 29, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Water District No. 34, Mackay, Idaho, as of February 29, 2020, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require supplementary information, such as management's discussion and pension related schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Water District No. 34's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2020, on our consideration of Water District No. 34, Mackay, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Searle Hart & Associates PLLC

Rexburg, Idaho
September 10, 2020

FINANCIAL SECTION

WATER DISTRICT NO. 34
STATEMENT OF NET POSITION
February 29, 2020

ASSETS

Cash	\$ 49,717
Assessments receivable	1,656
Other receivables	-
Prepaid expenses	3,435

Capital assets

Land and improvements not being depreciated	-
Buildings	-
Equipment and furniture	-
Equipment under capital leases	-
Infrastructure	-
Accumulated depreciation	-

Total capital assets	-
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TOTAL ASSETS	54,808
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DEFERRED OUTFLOWS - Pension	3,005
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LIABILITIES

Accounts payable	40
Other accrued expenses	1,810
Prepaid assessments	187

Long-term liabilities

Due within one year

Notes payable - current portion	-
Accrued interest	-
Compensated absences	-

Due in more than one year

Notes payable - net of current portion	-
Net pension liability	14,275

TOTAL LIABILITIES	16,312
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DEFERRED INFLOWS - Pension	6,545
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NET POSITION

Net investment in capital assets	-
Restricted for:	
Capital projects	-
Debt service	-
Other projects	-
Unrestricted	34,956

TOTAL NET POSITION	\$ 34,956
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WATER DISTRICT NO. 34
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended February 29, 2020

OPERATING REVENUES

Charges for services	\$ 174,453
Other revenue	35
	<hr/>
TOTAL OPERATING REVENUE	174,488
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OPERATING EXPENSES

Recharge expense	8,653
Depreciation	-
Equipment repair	-
Insurance	4,236
Operation and maintenance	49,977
Other expenses	238
Payroll expenses	91,182
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TOTAL OPERATING EXPENSES	154,286
	<hr/>
INCOME FROM OPERATIONS	20,202
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NON-OPERATING REVENUES (EXPENSES)

Interest income	10
Interest expense	-
Gain (loss) on sale of assets	-
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TOTAL NON-OPERATING REVENUES (EXPENSES)	10
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NET INCOME (LOSS)	20,212
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NET POSITION March 1, 2019	14,744
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NET POSITION February 29, 2020	\$ 34,956
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WATER DISTRICT NO. 34
STATEMENT OF CASH FLOWS
For the Year Ended February 29, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 178,695
Cash payments for goods and services	(62,986)
Cash payments to employees	(92,043)
Other operating cash payments	(238)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>23,428</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Sale of capital assets	-
Acquisition of capital assets	-
Payments on long-term debt	-
Interest expense on long-term debt	-

NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>10</u>
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>10</u>
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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,438
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CASH AND CASH EQUIVALENTS, March 1, 2019	<u>26,279</u>
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CASH AND CASH EQUIVALENTS, February 29, 2020	<u><u>\$ 49,717</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ 20,202
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	-
Net change in pension expense related to net pension liability	(861)
(Increase) decrease in receivables	4,207
(Increase) decrease in prepaid expenses	272
Increase (decrease) in payables	40
Increase (decrease) in prepaid assessments	(432)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 23,428</u></u>
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NOTES TO THE FINANCIAL STATEMENTS

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WATER DISTRICT NO. 34
INDEX TO NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

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WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

1. SUMMARY OF ACCOUNTING POLICIES

Water District No. 34 is organized and operates under the provisions of Idaho Code Title 42 Chapter 6 and the accounting policies and practices of the District conform to generally accepted accounting principles (GAAP) as applied to governments, except for the exception noted hereafter: the District manages their daily operations on a cash basis, but the financial statements are reported in accordance with generally accepted accounting principles. A summary of the District's significant accounting principles applied in the preparation of the accompanying financial statements follows.

A. REPORTING ENTITY

The financial statements included herein present the financial position, results of operations, changes in net position and cash flows for Water District No. 34. The business and property of the District is managed by the Watermaster who is empowered to sign contracts, documents, checks and other instruments for the payment of money under the advice of the Advisory Board. All fees and charges for the District are established based on the expenses anticipated for the upcoming year.

B. BASIS OF ACCOUNTING

Water District No. 34's funds are accounted for on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

C. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION

The following are the District's significant policies regarding recognition and reporting of certain assets, deferred outflows, liabilities, deferred inflows, and net position:

Cash and Investments

Cash and cash equivalents consist primarily of demand deposits with financial institutions and short-term investments with original maturities of three months or less from the purchase date. Investments include pooled investments and certificates of deposit with original maturities greater than three months.

Receivables

Receivables from customers primarily include past due assessment fees. The receivable amounts are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Capital Assets

The District does not currently capitalize any assets.

Deferred Outflows

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period, or periods, so it will not be recognized as an outflow of resources until that time. The District has deferred outflows associated with the net pension liability.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

C. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION
(Continued)

Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bond using the straight-line method, which approximates the effective interest method. Any issuance costs are expensed in the period incurred.

Deferred Inflows

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This financial statement element represents an acquisition of net position that applies to a future period, or periods, so it will not be recognized as an inflow of resources until that time. The District has deferred inflows associated with the net pension liability.

Net Position

The difference between assets and deferred outflows less liabilities and deferred inflows is reported as net position on the financial statements.

D. BUDGETS AND BUDGETARY ACCOUNTING

The budget follows the requirements of Idaho Code as outlined in Code Section 22-307.

- a. The District's Advisory Board meets in February of each year and reviews the budget that has been drafted by the Watermaster to indicate the amounts required to conduct the affairs of the District for the upcoming year.
- b. The membership of the District meets in March of each year to approve or amend the budget as outlined.
- c. Subsequent control of the budget following adoption is accomplished through a computerized budget expenditures control system maintained for management purposes. The budget is adopted on a cash basis.

E. COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

Accumulated unpaid vacation and other employee benefits are accrued when incurred using the accrual basis of accounting. At February 29, 2020, unrecorded fund liabilities did not include any leave time accumulations.

Vacation leave is recorded as expense when earned. A liability for unused vacation leave, when applicable, is recorded in the Statement of Net Position.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

F. REVENUES AND EXPENSES

In proprietary fund accounting, revenues are recognized when earned and expenses are recorded when the related liability is incurred.

Operating revenue consists of income derived from user charges and other charges and fees. Operating expenses include cost of services, administrative and other expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

When an expense is incurred for the purposes for which both restricted and unrestricted resources are available, the District generally uses restricted resources first, then unrestricted resources.

G. ENCUMBRANCE ACCOUNTING

Water District No. 34 does not implement encumbrance accounting methods. Uncommitted appropriations lapse at year end and commitments are re-appropriated in the next year's budget.

H. PENSIONS

For purposes of measuring the net pension liability and pension expenses, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The District's cash and investments as of February 29, 2020 totaled \$49,717, of which \$49,717 represented demand deposits. The District did not have any other investments.

Deposits

At year end, the carrying amount of the District's deposits in financial institutions was \$49,717 and the bank balance was \$49,717. The full amount was covered by FDIC insurance.

The deposits by the District are not collateralized nor are they required to be by Idaho State statute. The District follows the requirements of the Idaho Public Depository Law (Idaho Code Section 57-111), and applicable investment rights and restrictions cited by Idaho Code Sections 67-1210 and 67-1210A and Idaho Code Section 50-1013.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

3. CAPITAL ASSETS

For the year ended February 29, 2020, Water District No. 34 did not have any capital assets.

4. PENSION PLAN

Plan Description

The District contributes to the Base Plan, which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement of 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2019, it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The District's contributions were \$4,982 for the year ended June 30, 2019.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

4. PENSION PLAN (Continued)

Member and Employer Contributions (Continued)

Effective for payroll beginning after July 1, 2019, the contribution rates for both employee and employers increased. The employee contribution rate increased to 7.16% for general employees and 8.81% for police and firefighters. The employer contributions rate of covered payroll increased to 11.94% for general employees and 12.28% for police and firefighters.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At February 29, 2020, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2019, the District's proportion was .0012506 percent.

For the year ended February 29, 2020, the District recognized pension expense (revenue) of \$4,762. At February 29, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 794	\$ 1,682
Changes in assumptions or other inputs	1,327	4,863
Net difference between projected and actual earnings on pension plan investments	(139)	-
County contributions subsequent to the measurement date	1,023	-
Total	<u>\$ 3,005</u>	<u>\$ 6,545</u>

A portion of deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date of \$1,023 for the year ended February 29, 2020, will be recognized as a reduction of the net pension liability in the subsequent year.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2018 the beginning of the measurement period ended June 30, 2019 is 4.8.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses (revenue) as follows:

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

4. PENSION PLAN (Continued)

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year ended September 30:

2020	\$ (514)
2021	\$ (2,202)
2022	\$ (1,073)
2023	\$ (636)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Salary inflation	3.75%
Investment rate of return (net of investment expenses)	7.05%
Cost-of-living adjustments	1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2013 through June 30, 2017 which reviewed all economic and demographic assumptions other than mortality. The net pension liability as of June 30, 2019 is based on the results of an actuarial valuation date of July 1, 2019.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

4. PENSION PLAN (Continued)

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on the approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are show below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2019:

Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return (Arithmetic)	Long-Term Expected Real Rate of Return (Arithmetic)
Core Fixed Income	30.00%	3.05%	0.80%
Broad US Equities	55.00%	8.30%	6.05%
Developed Foreign Equities	15.00%	8.45%	6.20%
Assumed Inflation - Mean		2.25%	2.25%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.75%	4.50%
Portfolio Standard Deviation		12.54%	12.54%
Portfolio Long-Term (Geometric) Expected Rate of Return		6.13%	3.77%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.73%	3.37%
Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.19%
Portfolio Standard Deviation			14.16%
Valuation Assumptions Chosen by PERSI Board			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			3.00%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses			7.05%

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

4. PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.05%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.05%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.05%) or 1-percentage-point higher (8.05%) than the current rate:

	1% Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
Employer's proportionate share of the net pension liability (asset)	\$43,117	\$14,275	\$ (9,576)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the pension plan

At February 29, 2020, the District reported payables to the defined benefit pension plan of \$0 for legally required employer contributions and \$0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

5. LITIGATION AND CONTINGENT LIABILITIES

The District is at various times involved in claims arising from the ordinary course of operations. The estimated possible loss to the District for such claims is uncertain as the likelihood of an unfavorable outcome is unknown. No accrual has been reflected in the financial statements for these matters. It is Management's opinion that the ultimate disposition of such claims will not have a materially adverse effect on the District's financial condition.

WATER DISTRICT NO. 34
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 29, 2020

6. LONG TERM DEBT

Long-term Obligation Activity:

General long-term obligations of Water District No. 34 include net pension liability as required by GASB 68. During the year ending February 28, 2019, the following changes occurred in long-term debt:

<u>Business-Type Activities</u>	<u>Balance 2/28/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2/29/2020</u>	<u>Amounts due within one year</u>
Net Pension Liability	\$ 19,473	\$ -	\$ (5,198)	\$ 14,275	\$ -
Total business-type activities	<u>\$ 19,473</u>	<u>\$ -</u>	<u>\$ (5,198)</u>	<u>\$ 14,275</u>	<u>\$ -</u>

7. RELATED PARTY TRANSACTIONS

The District has not been directly involved in related party transactions that would violate Idaho Code or Federal Regulations.

8. MATERIAL VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

There are no known violations of direct finance-related legal and contractual provisions.

9. RISK MANAGEMENT

The District is exposed to various risks related to torts: theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers.

10. SUBSEQUENT EVENTS

Subsequent events have been considered through the report date of September 10, 2020. There are no known subsequent events that will have a material impact on the operation of the District.

REQUIRED SUPPLEMENTARY INFORMATION

WATER DISTRICT NO. 34
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
PERSI - BASE PLAN
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Employer's portion of net pension liability	0.0012506%	0.0013202%	0.0013187%	0.0014009%
Employer's proportionate share of the net pension liability	\$ 14,275	\$ 19,473	\$ 21,718	\$ 28,398
Employer's covered employee payroll	\$ 42,296	\$ 42,475	\$ 42,916	\$ 40,975
Employer's proportional share of the net pension liability as a percentage of its covered payroll	33.75%	46.09%	50.88%	70.01%
Plan fiduciary net position as a percentage of the total pension liability	93.79%	91.69%	90.68%	87.26%
	<u>2015</u>			
Employer's portion of net pension liability	0.0012936%			
Employer's proportionate share of the net pension liability	\$ 17,035			
Employer's covered employee payroll	\$ 36,233			
Employer's proportional share of the net pension liability as a percentage of its covered payroll	47.18%			
Plan fiduciary net position as a percentage of the total pension liability	91.38%			

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full trend is compiled, the County will present information for those years for which information is available.

Data reported is measured as of June 30 each year.

WATER DISTRICT NO. 34
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERSI - BASE PLAN
Last 10 Fiscal Years*

PERSI BASE PLAN						
<u>Fiscal Year</u>	<u>Statutorily Required Contribution</u>	<u>Contribution in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>	
2015	\$ 4,231	\$ 4,341	\$ (110)	\$ 36,106	12.02%	
2016	\$ 4,164	\$ 4,679	\$ (515)	\$ 40,562	11.54%	
2017	\$ 4,659	\$ 4,924	\$ (265)	\$ 42,688	11.53%	
2018	\$ 5,127	\$ 4,873	\$ 254	\$ 42,252	11.53%	
2019	\$ 4,785	\$ 4,878	\$ (93)	\$ 42,296	11.53%	

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full trend is compiled, the County will present information for those years for which information is available.

Data reported is measured as of February 28/29 each year.

WATER DISTRICT NO. 34
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
PERSI – BASE PLAN
For the Year Ended February 29, 2020

Methods and Assumptions Used in Calculations of Actuarily Determined Contributions

The actuarially determined contribution rates in the employer's contributions are calculated as of June 30, 2019. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

	PERSI Base Plan
Valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percentage of projected payroll open
Remaining amortization period	10.6 years
Asset valuation method	Market value
<u>Actuarial assumptions:</u>	
Investment Rate of Return *	7.00%
Projected salary increases	3.75%
Includes salary inflation	3.75%
Postretirement benefit increase	1.00%
Implied price inflation rate	3.00%
Discount Rate – Actuarial Accrued Liability	7.05%

* net of all expenses

OTHER SUPPLEMENTARY INFORMATION

WATER DISTRICT NO. 34
BUDGET AND ACTUAL (WITH BUDGET TO GAAP DIFFERENCES)
For the Year Ended February 29, 2020

	BUDGETED AMOUNTS		BUDGETARY
	ORIGINAL	FINAL	BASIS
REVENUES			
Fees and fines	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	176,236	176,236	174,453
Investment earnings	-	-	10
Miscellaneous	-	-	35
	<u>176,236</u>	<u>176,236</u>	<u>174,498</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	-	-	-
Public works	201,917	201,917	150,822
Health and sanitation	-	-	-
Conservation/economic development	-	-	-
Education	-	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay	-	-	-
	<u>201,917</u>	<u>201,917</u>	<u>150,822</u>
Excess (deficiency) of revenues over expenditures	(25,681)	(25,681)	23,676
OTHER FINANCING SOURCES (USES)			
Net change in fund balances	(25,681)	(25,681)	23,676
Fund Balances, March 1, 2019	<u>14,744</u>	<u>14,744</u>	<u>14,744</u>
FUND BALANCES, FEBRUARY 29, 2020	\$ <u>(10,937)</u>	\$ <u>(10,937)</u>	\$ <u>38,420</u>

GAAP DIFFERENCES		GAAP BASIS	
\$	-	\$	-
	-		-
	-		-
	-		174,453
	-		10
	-		35
	-		174,498
	-		-
	-		-
	3,464		154,286
	-		-
	-		-
	-		-
	-		-
	-		-
	3,464		154,286
	(3,464)		20,212
	-		-
	(3,464)		20,212
	-		14,744
\$	(3,464)	\$	34,956

WATER DISTRICT NO. 34
NOTES TO THE OTHER SUPPLEMENTARY INFORMATION
For the Year Ended February 29, 2020

1. The legally adopted budget for Water District No. 34 is based on the cash basis of accounting.
2. Higher operating expenses may be reflected on the GAAP basis if equipment was purchased at year-end with a partial payment budgeted in the current year and an account payable booked to reflect the final payment in the subsequent year's budget.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

**The Advisory Board
Water District No. 34
Mackay, Idaho**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Water District No. 34, Mackay, Idaho, as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated September 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Water District No. 34, Mackay, Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water District No. 34's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control, as defined above, that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

Finding 2020-001

Condition

The size of the District's staff is not large enough to permit a complete segregation of duties for an effective system of internal controls.

Criteria

An effective system of internal controls requires that closely related duties be segregated.

<i>Context</i>	Because of review by the Advisory Board and Water Master of financial transactions, the risk is reduced but errors could still occur and not be detected in the normal course of business.
<i>Effect</i>	The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.
<i>Cause</i>	The District's staff is too small to allow a complete segregation of duties.
<i>Recommendation</i>	Although the District is not large enough to permit a complete segregation of duties for an effective system of internal accounting control, we recommend that officials be aware that the condition does exist and take steps to identify opportunities to further segregate duties where possible.
<i>Management Response</i>	Although the District recognizes the importance of segregation of duties for proper internal control, the District does not believe it would be cost effective to increase its staff size simply to provide greater segregation of duties. The District will be cognizant of opportunities that arise to further segregate duties within the limitations of the District's size.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water District No. 34's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Entity's Response to Findings

Water District No. 34's response to the findings identified in our audit is described above. Water District No. 34's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Searle Hart & Associates PLLC

Rexburg, Idaho
September 10, 2020